

Performance Pays:
Hamilton County, Ohio
Department of Job and Family Services
Pay for Performance Program
Summary Report



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Executive Summary

In October 2003, under a grant extended to the Hamilton County (Ohio) Department of Job and Family Services (JFS), the Annie E. Casey Foundation commissioned CPS Human Resource Services to research the effectiveness of Hamilton County's Pay for Performance program, to provide consulting services to enhance the program's effectiveness, and to evaluate the program's transportability to other human services organizations.

Hamilton County's Pay for Performance (PFP) program was identified as a "best practice" as part of the Casey Foundation's Human Services Workforce Initiative. Under their Pay for Performance initiative, JFS rewards its high achievers with merit pay and bonuses. One of the most significant aspects of the PFP system is that its design, implementation, and continuing administration are the product of a joint labor-management partnership. In 1997, the mechanics of PFP were hammered out at the bargaining table, and since then, joint labor-management committees work together to create, review and revise the Major Work Objectives of the agency, the foundation for the PFP system.

The result is that JFS employees now identify with the strategic direction of the agency and have a sound understanding of how their individual work and accomplishments support the organization's success. This "line of sight" is very rare in public agencies.

In our review of the PFP program, we found that:

- JFS employees report that they have a clear understanding of how their jobs fit with the strategic direction of the agency.
- JFS employees also report a good understanding of what their supervisors expect of them.
- Turnover in JFS' four largest classifications has declined by 14 percent since the introduction of PFP.
- Hamilton County's wage and salary costs have not increased over what they would have been under the previous compensation system.
- The average performance evaluation scores of those who remain with JFS are higher than those who leave. This suggests that PFP encourages the high performers to remain at JFS and low performers to leave.
- High performing employees are paid as well, if not better, under Hamilton County's PFP program as they would have been under the old system. (Some employees at the maximum of their pay ranges have earned as much as 10 percent over the maximum rate by receiving the highest available merit and bonus awards). On the other hand, marginal employees, no longer eligible for automatic step increases and cost-of-living adjustments, do not receive an increase.

Based on these findings, we believe that the PFP system is an effective tool that can be replicated in other human services agencies. The potential results are a more committed, effective and stable human services workforce, resulting in better outcomes for children and families. As a final step in this project, we developed two documents, one intended to promote the PFP program to other human services organizations (**Appendix A**), the other for organizations considering implementing all or parts of the program, that provides step-by-step details of how JFS implemented their PFP system (**Appendix B**).

Background

Public human services agencies across the country struggle to provide quality service with a workforce plagued by high turnover, low wages, huge workloads and limited professional development opportunities. A major factor in the human services profession's losing battle to recruit, retain, motivate and reward its workforce is the often outmoded and ineffective human resources management (HRM) function found in many public agencies.

Within the past few years, there has been a growing awareness of the critical role HRM must play if the problems facing the human services workforce are to be addressed. In some jurisdictions, the HRM function has taken on a strategic role, and a number of innovative programs have been implemented in an attempt to make the HRM function more flexible, responsive and supportive.

The Annie E. Casey Foundation (AECF), Human Services Workforce Initiative is the first national effort to address the critical condition of the nation's human services workforce. To establish a baseline of knowledge concerning HRM in public human services agencies and the quality of the human services workforce, the Foundation funded a study of HRM best practices from 2000 through 2002. This study addressed two primary objectives:

- Identify jurisdictions leading the way in implementing HRM reforms within particular technical areas, such as recruitment, salary administration and career management.
- Determine how widespread the reported advances in public sector HRM were.

In March 2002, the Annie E. Casey Foundation commissioned CPS Human Resource Services (CPS) to study HRM best practices within public human services agencies. The study's objective was to identify jurisdictions in which HRM best practices have been effectively applied in agencies serving families, children, and neighborhoods. The project goals were to:

- Determine the "transferability" of the identified HRM best practices.
- Identify the likely barriers to successfully implementing the best practices across a wide array of jurisdictions.

Our search for best practice sites began with an intensive review of professional publications, including academic and HRM professional journals, leads from professional associations, and contacts with organizations involved in human services delivery. The preliminary research resulted in the identification of 91 potential best-practice locations where at least one high-level manager was interviewed by telephone. The intensive telephone screening process narrowed the list of best-practice sites to six organizations where on-site visits were made. Ultimately, two jurisdictions were identified as meeting the criteria we had established for further research.

CPS completed the best-practice search and provided a report to the Casey Foundation in April 2003, identifying the two human resources innovations we believed to be worthy of further study. One of these unique HRM programs is the Pay for Performance (PFP) system found in Hamilton County (Ohio) Job and Family Services.

In October 2003, under a grant extended to the Hamilton County JFS, the Annie E. Casey Foundation commissioned CPS to research the effectiveness of the Pay for Performance process, provide consulting services to enhance its effectiveness, and to evaluate its transportability to other human services organizations.

JFS and the Pay for Performance System: Description

The Hamilton County, Ohio, Department of Job and Family Services (JFS) is the largest combined human services agency in Ohio. Public assistance, child support, and child protection programs are all administered by this single organization of over 1,600 employees. JFS programs serve more than 300,000 Hamilton County residents per year.¹

Hamilton County's 1,100 unionized employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME). Employees covered by the agreement perform the full range of human services for Hamilton County's residents as well as administrative support functions within the agency.

Within JFS, the "Section" is the organizational level where first-line (work unit) supervisors report. In most instances, all of the work units within a Section perform the same or similar work.

In 1998, JFS implemented their innovative Pay for Performance (PFP) system, linking pay increases and bonus awards to performance outcomes for all of their bargaining unit employees. The program replaced the more traditional compensation system, which was based on step increases and cost of living adjustments.

JFS had some prior experience with performance-based pay systems as a result of the County Executive having implemented such a program for supervisory and managerial employees in all Hamilton County agencies in 1995. By 1997, the JFS Director had experienced, first hand, the benefits of the system. He believed that extending the system to represented employees offered great potential to address a number of agency-wide concerns. Soon thereafter, JFS began negotiations to develop the PFP program with the labor union representing JFS employees (AFSCME).

Collaboration between union and management on this type of program was unusual and, in part, contributed to the program's designation as a best practice. After the PFP framework was negotiated, union and management committees cooperatively set the initial performance objectives for employees; that joint approach to setting objectives continues today.

Hamilton's decision to embark on a performance-based pay system was based in large part on a desire to increase public employee accountability. The changes were also based on the belief that the link between achievement and rewards could be strengthened by recognizing performance accomplishments through merit-based financial rewards. Hamilton's

¹ JFS is accredited by the Council on Accreditation for Children and Family Services. It was one of the few public agencies with a full breadth of services to be accredited.

administrators also believed that employee turnover could be reduced by clarifying performance expectations and recognizing achievement through financial incentives.

Prior to PFP's implementation, a large proportion of the agency's employees were at or near the maximum of their salary ranges, and had very limited opportunities for continued growth in their salary and other forms of compensation. In part, JFS viewed PFP as a way to become less dependent on the agency's traditional pay structure and allow for employees' continued growth in income regardless of where they were within the pay ranges of the existing salary structure.

Hamilton's PFP plan has two components – merit pay and bonus pay:

1. Merit pay, which is designed to become part of the base rate, is based primarily on employees' performance in meeting their Major Work Objectives. Merit pay awards are administered annually.
2. Bonus pay, which is administered semiannually, is designed to reward employees for "going above and beyond" the requirements of the job. Bonus pay is handled as a lump sum bonus, and does not become part of the base rate.

Generally speaking, merit increases are based on objective measurements while supervisors have much more discretion in the determination of bonus pay.

The identification of specific, measurable outcomes, known at JFS as Major Work Objectives (MWOs), serves as the foundation for merit pay. Labor-management committees review, revise and develop MWOs, ensuring that they address the most important aspects of the workers' jobs. Each employee is given a document that identifies the MWOs for the period of time encompassed by the performance evaluation. Throughout the evaluation period supervisors are expected to provide feedback to their direct reports on their progress in achieving the MWOs. At the end of that period, supervisors prepare final evaluations and score worker performance based on objective measures.

Over the several years since PFP implementation, JFS has done an excellent job of building computer generated tracking reports that supervisors can rely on to objectively assess worker performance. The objectivity built into this part of the pay system is critical to its success because it provides the union with the assurance it needs to ensure that merit pay is based on measurable criteria rather than subjectivity and favoritism.

A major contributor to PFP's success is the critical role Human Resources (HR) plays in the system. Although the supervisors evaluate performance against measurable objectives, HR recommends the specific merit increases based on performance scores and available dollars. Another safeguard in the system, though rarely used, is the grievance procedure HR administers. The good working relationship between HR and the union has also been instrumental in resolving issues before they escalate into major problems.

Hamilton's PFP program is a multifaceted process that we believe has several "best practice" components. Although "pay for performance" is the essence of the program, there are other innovative aspects that could be implemented without performance-based pay.

- JFS' commitment to setting clear and measurable objectives is, in itself, worthy of replication. Objectives are set cooperatively with key units (Quality Assurance, Human Resources, policy offices), as well as line managers and the union. The goal is to define objectives critical to the JFS strategic mission, and provide supervisors with data and other tools they need to measure worker performance.
- Hamilton's dedication to continuous performance management is also noteworthy. For many organizations, performance management is a painful "once a year" activity that forces employees and their supervisors to review the past year's performance. In Hamilton County, supervisors are expected to meet at least monthly with each of their direct reports to discuss work progress, accomplishments and deficiencies. Part of the reason these regular meetings occur is because everyone's pay is affected. However, we believe that these regular meetings occur because the organization's culture evolved to one where the focus on performance management has become second nature.
- Hamilton's PFP program includes both merit pay and bonus pay, which compliment each other. However, other jurisdictions could offer either option as a way to link performance to compensation.

Project Description and Scope

In January 2004, under a grant extended to Job and Family Services, the Annie E. Casey Foundation commissioned CPS to research the effectiveness of JFS' Pay for Performance system, providing consulting services to enhance its effectiveness, and to evaluate its transportability to other human services organizations.

Although our preliminary investigation (during our search for best practices during 2002 and 2003) led us to believe that PFP was effective in improving employee performance and reducing turnover among better performers, our information was based on observation and anecdotal feedback. Our preliminary review also suggested that the PFP system was a cost-effective approach to staying competitive in the labor market. However, none of our observations had been quantified. As part of our project plan, we sought to:

- Determine PFP's impact on wage and salary costs.
- Determine PFP's impact on client outcomes.
- Measure employee and supervisor satisfaction with the PFP process.
- Determine PFP's impact on overall employee turnover and retention.
- Determine if PFP was effective in encouraging the better performers to remain with JFS while encouraging the weaker performers to leave.

As part of its grant, Job and Family Services sought support from the Casey Foundation to enhance and improve the PFP system. JFS believed that their system could be improved by introducing tools to strengthen the leadership skills of supervisors and to better track the impact that the PFP system is having on retention and turnover. The AECF commissioned CPS to assist JFS in the following areas:

- Assist JFS in developing a turnover tracking system that can be used to monitor turnover, particularly as it relates to the PFP system.
- Research the literature and provide recommendations to JFS on how they can improve their selection and professional development processes to hire/promote and develop supervisors who are "people leaders" rather than just "process experts."
- Research the literature and provide recommendations to JFS on an exit interview/exit survey strategy.
- Research the application of software programs or hardware configurations that would lead to increased efficiency in the analysis of performance data. Midway through the project, JFS made plans to purchase new HRIS software that negated the need to complete this research.

As a final step in this project, we were asked to evaluate the portability of the PFP process to other human services organizations and make recommendations that might ease the implementation in other agencies.

Project Constraints

Shortly after this project commenced, we held a series of meetings with JFS managers and HR officials, as well as focus groups with employees and with supervisors. We quickly discovered several things:

- The PFP process has evolved and improved over several years, making it difficult to contrast the differences between pre-PFP and post-PFP periods.
- Much of the data that we had hoped would be available, particularly on worker performance, simply do not exist in the level of detail necessary for analysis.
- There have been a number of interventions over the past several years aimed at improving program effectiveness, making it difficult, if not impossible, to isolate the impact of the PFP program.

We must also acknowledge the tremendous cooperation from everyone at JFS, particularly in light of the huge workloads and monumental pressures facing them on a daily basis. Although they made every effort to accommodate our requests, we tried to minimize our intrusiveness once we realized how time consuming some of our requests could be.

Methodology

Our project plan included the development and administration of three surveys, for JFS employees, JFS supervisors, and for collecting compensation data. We met with JFS management officials and conducted employee and supervisor focus groups in April 2004 to gather information relevant to the survey development. We administered the survey online during a three-week period in October and November 2004.

One survey was designed to gather information about JFS employees' views of the PFP process. The second survey was designed to measure supervisors' satisfaction with the PFP process both from the perspective of supervisors using the process with their direct reports, and also from the supervisors' perspective of being evaluated by their managers. We compared the JFS responses to some of the questions with those from a control group from another agency.

In order to document PFP's impact on turnover and retention, we conducted employee focus groups, included relevant questions in the employee/supervisor surveys, and conducted a comprehensive analysis of JFS payroll records. To document the cost of the PFP system, we developed a unique compensation survey to collect historical wage and salary data.

Summary of Findings

Client Outcomes

One of the driving forces for PFP implementation was the belief that financial incentives would drive improved performance, which would in turn lead to improved outcomes for JFS clients. There is certainly some evidence to support that proposition. The focus groups of supervisors we met with stated that they believed that service to clients has improved as a result of the PFP program. The results of the employee and supervisor surveys we conducted in the fall of 2004 also support that belief. Thirty-three percent of employees participating in the survey believe that service to clients is better than it was five years ago, while only 11 percent of employees believe it is not. Of the supervisory responses, 62 percent believe service to clients is, at least to some extent, better now than it was five years ago. However, neither group necessarily attributes the improved client service to PFP.

We analyzed data from both the food stamp program and the children's services programs in an attempt to identify performance trends that could be directly associated with client outcomes. We were unable to identify such performance trends in any of the data. See **Appendix C** for our comprehensive analysis of the children's services program.

Although we were unable to document the impact of the PFP system on client outcomes, it should not be construed as meaning there was no impact. Simply stated, the data does not exist in sufficient detail to draw conclusions one way or the other. Furthermore, our investigation revealed there are so many variables that affect client outcomes that establishing a causal relationship would be very difficult. Policy changes, management practices, training opportunities, the budget situation, the influence of private human services agencies, budget constraints, and employee morale all have an impact on productivity, service quality and client outcomes. Isolating one variable in a longitudinal analysis is very difficult.

Employee and Supervisor Satisfaction

Major findings from the JFS employee and supervisor surveys show that the majority of employees and supervisors:

- Believe that they have ample opportunity to provide input into the evaluation process.
- Believe that the PFP system is not an effective tool for compensating them.
- Believe that the PFP system is not effective in recognizing differences in job performance.
- Believe that the PFP system provides them with ongoing feedback about their performance.

- Agree with their last performance evaluation.
- Intend to work hard over the next year to get a substantial merit increase or bonus award.
- Have a clear understanding of how their job fits into the big picture and what their supervisors expect them to achieve.

Overall, the perceptions about the PFP system were much more positive in the focus groups than from the survey results. Although each of the focus groups initially identified problems with the PFP system, once they gave more thoughtful consideration to the “pros and cons,” they voiced strong support for the system. Based on our experience with the focus groups, we expected that the responses to the online survey to be somewhat negative because the nature of the survey is likely to capture the initial reaction than a more thoughtful, reflective response.

See [Appendix C](#), *Best Practices Evaluation*, for further details on the survey methodology and analysis, the results from the Hamilton County JFS Supervisor Survey, and the results from the Hamilton County JFS Employee Survey.

Turnover and Retention

When JFS introduced the PFP system, Hamilton County officials believed that it would become a viable worker-retention strategy, particularly among high-performing employees who had reached, or were near the top, of their pay range. In theory, the high achievers at JFS who have reached the maximum pay range rate should be able to earn more in Hamilton’s PFP system than they could earn in most other settings. In the traditional systems, once an employee reaches the maximum of the pay range, only cost-of-living adjustments (COLA) are available. A JFS employee at the maximum of the pay range could theoretically still earn an increase of as much as 10 percent by earning the maximum merit pay of five percent (paid as a lump sum to employees at the maximum of their range), and the maximum 2.5 percent in each of the two semiannual bonus-review periods.

Based on our review, we believe that the PFP system has played a role in reducing overall turnover, and has encouraged the better performers to stay at JFS while providing the incentive for weaker performers to leave. Specifically:

- Overall turnover in JFS’ four largest classifications has been reduced by approximately 14 percent (24.8 percent to 21.3 percent) when comparing the average turnover rate during the two-year period prior to PFP and the five-year period following its introduction.
- Pre- and post-PFP turnover rates were cut in half for the Child Support Technician classification (26 percent to 13 percent) and fell by 25 percent in the Children’s Services classification (36 percent to 27 percent).

- The average performance evaluation scores over the most recent three-year period in each of the four largest classifications are higher for those who remained with JFS than the average of the scores of those who left. (The greatest difference was in the Children's Services Worker classification where the average scores of the stayers was 9 percent higher than that for leavers). This suggests that the PFP system encourages the high achievers to stay and the weaker performers to leave.
- Although the 27 percent turnover rate in the Children's Services classification is still high, our research shows that, on average, low performers are more likely to leave than the high performers.

See **Appendix D** for a more detailed report on our findings regarding PFP's impact on turnover and retention.

Work Performance

Hamilton County JFS implemented PFP in large part to improve work performance. Unfortunately, we could not conduct a comprehensive analysis of the PFP impact on work performance measures because historical performance data is unavailable. However, the limited data that is available suggests that the PFP system has had a positive impact on performance outcomes.

The most readily available data for our review included the annual performance evaluation scores received by employees in January 2002, 2003 and 2004, which evaluated their performance for the preceding six-month periods, (i.e., June through December 2001, 2002 and 2003). Since the overall PFP score is a direct measure of achievement in meeting Major Work Objectives (the score also includes points for professional standards and personal objectives), we considered improvement in scores from one year to the next to equate to performance improvement. We cannot conclude, however, that a decrease in score equates to poorer performance. Since quality and productivity goals may increase each year, failure to meet the higher standards may result in lower scores even though performance has improved from prior year(s).

The average performance evaluation scores for all Children's Services Workers improved from 2002 to 2003, and again from 2003 to 2004, suggesting improvement in overall performance over time. Although there are a number of factors that could have resulted in improved performance evaluation scores from one year to the next, based on our discussions with JFS managers and the input of the supervisor focus groups we must conclude that PFP played a role in that improvement. Supervisors observed that the consistent emphasis on performance and outcomes caused employees to focus their energy on meeting their objectives and improving their performance.

See **Appendix D** for further details of our review of the relationship between PFP and work performance.

Wage and Salary Costs

When JFS designed its PFP system, one of the mandates from the Board of Commissioners was that the system not cost more than the traditional system it would replace. As part of the Casey Foundation grant, JFS asked CPS to conduct a wage and salary analysis to determine what impact the PFP system had on JFS compensation costs. Our salary survey also provided valuable data for JFS to help them determine the competitiveness of their pay plan in the relevant labor market.

In the spring of 2004, we developed a unique survey designed to collect both current and historical wage and salary data. We invited 21 public human services agencies from the Midwest to participate in the survey; 16 responded. We found that:

- The PFP program has not cost Hamilton County more than the traditional pay system would have cost.
- JFS continues to offer competitive wages – the average JFS rate in the surveyed classifications is about 95 percent of the average rate and 97 percent of the median rate paid by the survey respondents.
- High achievers at JFS, who earned the maximum possible pay increases, earned salaries comparable to or higher than what they could have earned under the more traditional systems in other jurisdictions.

See **Appendix E** for the full report of our wage and salary study.

PFP Improvements and Enhancements

As part of its grant proposal to the Casey Foundation, JFS requested financial support for certain improvements to the PFP process. The Casey Foundation commissioned CPS to provide assistance to JFS in this regard.

Turnover Tracking System

Although JFS has produced turnover reports in the past, they have not been able to provide the level of detail necessary to do effective workforce planning. They wanted to be able to track turnover, not only within the job classification, but also by job specialty (e.g., Protective Services Investigations or Adoptions), Section and supervisor. Turnover tracking has also been complicated by the fact that the data they need must be extracted from different databases that are not easily integrated.

As a first step in designing an automated system to track turnover, we designed several turnover-tracking templates, which provided JFS with examples of reports to track turnover from several different perspectives. We worked closely with JFS and took the lead in the development of automated systems that will produce ongoing reports based on our templates. See **Appendix F** for examples of the templates.

Selection and Professional Development

JFS has recognized that a good performance management system goes beyond the design of the form and the mechanics of the process. They believe another critical ingredient is supervisors who lead, mentor and inspire their staff. In the past, many supervisors and managers at JFS were promoted based on their technical skills rather than their leadership qualities. As an enhancement to the current PFP process, JFS asked for assistance in researching training programs and selection tools that would help ensure that their supervisors and managers will be effective people leaders rather than process managers.

Based on our research and on our extensive experience in the areas of employee selection and professional development, we recommended that JFS move toward a totally integrated competency-based human resources system. We recommended that as a first step they identify the critical competencies for their first-line supervisors and Section managers. Those competencies would serve as the basis for conducting behavioral interviews in the selection of new supervisors. Professional development in those same competency areas can further enhance the effectiveness of their supervisors and managers.

See **Appendix G** for our complete report and recommendations.

Exit Interviews/Surveys

Although turnover-tracking systems provide valuable information that can be analyzed to help better understand the reasons for turnover, they do not tell the whole story. Valuable information about the reasons for turnover can often be gleaned from exit interviews and exit surveys (EIS) with departing employees. Several years ago, JFS developed an exit survey for departing employees, and although the completion rate of the survey is very high (estimated at 90-95 percent), they believe the quality of the information they receive needs improvement.

CPS surveyed the relevant literature and prepared a report with recommendations to JFS on how the EIS process could be improved to provide better information about why employees leave their jobs. Some of our findings include:

- Departing employees are more likely to give candid feedback when they are assured that their reasons for leaving will be kept confidential and will be presented as aggregate information in summary reports.
- Exit interviews and exit surveys each have their own specific advantages and disadvantages. Interviews generally have a higher response rate and provide more in-depth responses; surveys are easier to quantify, provide assurances of confidentiality and can be done at far less cost.

We also designed a new exit survey form, utilizing JFS' current form as the starting point.

For the full report and survey form, see [Appendix H](#).

Application to Other Jurisdictions

In order to provide other agencies with detailed information about how to implement a performance-based pay system similar to that used in Hamilton County, the Annie E. Casey Foundation asked CPS to develop a “How-To Guide” that would be easily accessible to any organization. (See [Appendix B](#) for the How-To Guide.) We also developed a “Pay for Performance Overview,” that provides a high-level summary of the PFP process. (See [Appendix A](#) for the Overview.)

We believe the PFP process could be effectively replicated in any human services organization, irrespective of size, in either a union or non-union environment. The greatest barrier that we foresee is in those public agencies where the pay structure is strictly controlled by a centralized agency that is unwilling to permit the human services agency the degree of autonomy necessary to manage the process.

Although the introduction of a performance-based pay system might be easier in a non-union setting, the Hamilton County JFS experience serves as a model for labor-management partnerships. We believe that Hamilton County’s willingness to fully involve the union in the “nuts and bolts” of the process was critical to its success.

Hamilton’s PFP program is a multifaceted process that we believe has “best practice” components. Although pay for performance is the essence of the program, there are other innovative aspects that could be implemented even without performance-based pay.

- JFS’ commitment to setting clear and measurable objectives is, in itself, worthy of replication. Objectives are set cooperatively with key units (quality assurance, human resources, policy offices), as well as line managers and the union. The goal is to define objectives critical to the JFS strategic mission, and provide supervisors with data and other tools they need to measure worker performance.
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